MARK J. SALADINO
TREASURER AND TAX COLLECTOR

COUNTY OF LOS ANGELES
TREASURER AND TAX COLLECTOR

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December 19, 2013

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: Mark J. Saladino
Treasurer and Tax Collector

SUBJECT: **STANDARD & POOR'S CREDIT RATING UPGRADE**

Today Standard and Poor's (S&P) raised the County's long-term issuer credit rating from AA to AA+ based on its recently released ratings criteria. In addition, S&P raised the long-term rating on the County's appropriation-backed debt from AA- to AA. In raising the County's credit rating, S&P highlighted the County's budgetary flexibility and strong liquidity position, sizeable general fund reserves, and very strong management practices, including conservative budgeting and sound financial policies. The issuer rating of AA+ is the highest credit rating S&P has ever assigned to the County.

The ratings upgrade from S&P is a direct result of the strong fiscal leadership provided by your Board and the CEO and reflects the County's status as one of the premier municipal debt issuers in the nation. With the higher credit rating, the County will be in a position to secure lower interest rates to finance its capital needs, which will free-up additional resources for your Board to fund other critical programs and services. A copy of the full report from S&P is attached for your reference.

If you have questions regarding the S&P upgrade or any of the County's current credit ratings, please contact me directly or have your staff contact Glenn Byers of my staff at 974-7175.

MJS:GB:JP:pab
Pb/db/brdmemoratingsupgrade

Attachment

c: Executive Officer, Board of Supervisors
Chief Executive Officer
Auditor-Controller

STANDARD & POOR'S
RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect®

Summary:
Los Angeles County, California; Appropriations; General Obligation

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Summary:

Los Angeles County, California; Appropriations; General Obligation

Credit Profile		
Los Angeles Cnty ICR		
Long Term Rating	AA+/Stable	Upgraded

Rationale

Standard & Poor's Ratings Services raised its issuer credit rating (ICR) on Los Angeles County, Calif. to 'AA+' from 'AA' based on our recently released local GO criteria. Standard & Poor's also raised its rating on the county's appropriation-backed debt outstanding to 'AA' from 'AA-' reflecting the long-term creditworthiness of Los Angeles County and its covenant to budget and appropriate pledged lease payments, subject to abatement in the event of damage or impairment to the leased properties. The outlook on both ratings is stable.

The ICR reflects our assessment of the following factors for the county:

- Very strong budgetary flexibility, with 2012 audited available general fund reserves that exceed 15% of general fund expenditures;
- Very strong liquidity, with cash levels that cover both debt service and expenditures;
- Very strong management with strong financial policies;
- Strong budgetary performance, which takes into account improved performance in fiscal 2013 based on unaudited results;
- Adequate economy, which is broad and diverse but has high county unemployment levels; and
- Adequate debt and contingent liabilities position, driven mostly by our view of the county's large pension and other postemployment benefit (OPEB) obligations despite low direct debt levels.

Very strong budgetary flexibility

In our opinion the city's budgetary flexibility remains strong, with available general fund reserves on a generally accepted accounting principles (GAAP) basis at about 14% of expenditures, although reserve levels have declined slightly year after year for the past few years. The fiscal 2012 available general fund balance includes about $200 million of committed fund balances for general governmental purposes. Estimated unaudited general fund results for fiscal 2013 reflect a slightly improved available general fund balance on a GAAP basis. As it has in previous years, the county has designated a portion of the available budgetary balance for certain uses in its fiscal 2014 budget; however, we don't expect Los Angeles County's future flexibility to deteriorate significantly due to the county's historical practice of conservative budgeting and actual historical results, which have exceeded budget projections.

Very strong liquidity

Supporting the county's finances is liquidity we consider very strong, with total government available cash -- adjusted for the proportion of liquid investments in the county treasury pool -- at 15% of total governmental fund expenditures and at 855% of debt service. In addition, we believe the county has exceptional access to external liquidity as it has issued bonds frequently in the past 15 years, including lease revenue bonds, commercial paper, assessment debt, and tax and revenue anticipation notes.

Although Los Angeles County has entered into a direct purchase revolving credit agreement for $150 million with Bank of America N.A. and Los Angeles County Capital Asset Leasing Corp., officials indicate there are no plans at this time to draw on the facility. Assuming the county were to draw on the full $150 million, it would have a total of $164 million of direct purchase debt outstanding. While we note that there are terms in the revolving credit agreement that could allow for immediate repayment, we calculate the total contingent liability as a minimal 1% of total governmental revenue and only 6% of available cash and liquid investments in fiscal 2012.

Very strong management conditions

We view Los Angeles County's management conditions as very strong, with strong financial practices and policies. The county uses state economic data and actual historical trends in revenue forecasting and reviews expenditures and revenues monthly against budget. It prepares a five-year revenue and expenditure forecast as well as a seven-year long-term capital plan. The county has adopted a debt management plan and a written investment policy and prepares monthly investment performance reports submitted to the county board. While it has set a goal of building 10% of locally generated revenues in a rainy-day and economic reserve, officials report that the county is not meeting the goal at present.

Strong budgetary performance

Although we consider the county's budgetary performance adequate in fiscal 2012 with a 0.7% operating deficit in the general fund and 1.1% operating deficit in total governmental funds, the county's budgetary performance in fiscal 2013 reflects more stable operations based on unaudited results. General fund and governmental fund revenue and expenditures were adjusted to account for recurring transfers to and from Los Angeles County's medical centers and mental health service funds. General fund expenditures were adjusted to account for recurring transfers to the library and various debt service funds.

Fiscal 2012 operating deficits were related to Los Angeles County's strategy to use a one-time fund balance in combination with reducing budgeted positions during the economic downturn. Unaudited fiscal 2013 results reflect improvement in budgetary performance after regional economic stabilization and slight revenue growth. The county's budget projects balanced operations for fiscal 2014. After several years of containing costs and limiting pay raises, the county expects to give pay raises to its labor groups over the next two-and-half years. While these costs were not included in the recommended fiscal 2014 county budget, the county expects higher-than-projected revenue due to higher beginning balances, and we believe growing AV will mitigate these costs for balanced operations.

Adequate economy

We consider Los Angeles County's economy to be adequate, based on our assessment of its broad and diverse nature and a high unemployment rate of 10.9% in 2012, although we note unemployment levels are improving slightly year-to-date in 2013. Market value per capita in 2014 of about $114,000 is what we consider strong, although projected per capita income is close to that of the nation's at 98.4%. Assessed value (AV) has stabilized and grown since fiscal 2011 to $1.13 trillion in fiscal 2014, including annual 4.7% growth in fiscal 2014 compared with fiscal 2013, reflecting stabilization in the economy and home prices.

Adequate debt and contingent liability profile

In our opinion, the county's debt and contingent liability profile is adequate due to what we view as its large pension and OPEB obligations, despite low total governmental fund debt service at 1.8% of total governmental fund expenditures and net direct debt at 2.8% of total governmental fund revenue. We don't expect medium-term debt plans to change these ratios significantly.

The county contributes to the Los Angeles County Employees Retirement Association. The combined annual required contribution (ARC) pension costs and OPEB pay-as-you-go costs for fiscal 2012 were 9.1% of governmental expenditures. While Los Angeles County has contributed 100% of the pension ARC in each of the past three years, the pension funding ratio was only 76.8% in fiscal 2012 due to smoothing of previous-year asset losses as well as changes to return assumptions. Furthermore, Los Angeles County had an unfunded actuarial OPEB liability of almost $26 billion as of July 2012 and a $2 billion OPEB ARC. The county has funded its OPEB contribution on a pay-as-you-go basis, which was $416 million in fiscal 2012, or only about 20% of the OPEB ARC. In fiscal 2013, the county transferred almost $449 million into an irrevocable OPEB trust fund to help pay for future obligations, which officials expect will help reduce the future OPEB unfunded actuarial accrued liability.

Strong Institutional Framework

We consider the Institutional Framework score for California counties with a federal single audit requirement as strong. See Institutional Framework score for California, published Sept. 12, 2013.

Outlook

The stable outlook reflects our view that Los Angeles County's budgetary performance and flexibility will likely remain strong as a result of economic stabilization and conservative budgeting. We do not expect to change the rating in the next two years given the county's large pension and OPEB liabilities, which contribute to an adequate debt and liability profile. The county's broad and diverse economy enhances stability. While not expected in the next two years, should the county demonstrate sustained strong budgetary performance and consistently balanced operations after accounting for its hospital and medical center operations while unemployment improves significantly, we could raise the rating. Alternatively, should Los Angeles County's hospital and medical center operations deteriorate to weaken the county's budgetary performance and flexibility profiles, the rating could be pressured.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- Institutional Framework Overview: California Local Governments, Sept. 12, 2013
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007

Ratings Detail (As Of December 19, 2013)

Ratings Detail (As Of December 19, 2013) (cont.)		
Los Angeles Cnty cert of part ser 1993		
Long Term Rating	AA/Stable	Upgraded
Los Angeles Cnty lease rev bnds (Multiple Capital Projects Ii)		
Long Term Rating	AA/Stable	Upgraded
Los Angeles Cnty lse rev bnds (Lac-cal Equip Fincg)		
Long Term Rating	AA/Stable	Upgraded
Los Angeles Cnty rfdg COPs (Disney Concert Hall Parking Garage)		
Long Term Rating	AA/Stable	Upgraded
Los Angeles (Los Angeles Cnty) certs of part (Dept of Pub Social Svcs Fac) ser 1999A dtd 08/01/1999 due 08/01/2002-2011 2019 2024 2031		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
California Infrastructure & Econ Dev Bnk, California		
Los Angeles Cnty, California		
California Infrastructure & Econ Dev Bnk (Los Angeles Cnty) (LA Cnty Dept of Pub Social Svces Fac) (Vermont Village Human Services Corp) (AMBAC)		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
Los Angeles Cnty Pub Wks Fing Auth, California		
Los Angeles Cnty, California		
Los Angeles Cnty Pub Wks Fing Auth (Los Angeles Cnty) (Multi Cap Proj I)		
Long Term Rating	AA/Stable	Upgraded
Los Angeles Cnty Pub Wks Fing Auth (Los Angeles Cnty) (Multi Cap Proj I)		
Long Term Rating	AA/Stable	Upgraded
Los Angeles Cnty Pub Wks Fing Auth (Calabasas Landfill Proj) ser 2005		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
Sonnenblick-Del Rio El Monte Asset Lse Corp, California		
Los Angeles Cnty, California		
Sonnenblick-Del Rio El Monte Asset Lse Corp certs of part (Dept Of Pub Soc Svc Fac) ser 1999 dtd 01/15/1999 due 06/01/2001-2014 2019 2030		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

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